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ON INTERNAL CAUSES IN CAPITALISM

ECONOFICTION CAUSES, EQUILIBRIUM, MODEL, SIMULTANEOUS METHOD, TEMPORAL METHOD

Abstract

What is the difference between endogenous and exogenous cause? Or, as earlier writers refer to the issue, causes that are 'internal' and causes that are 'external' to capitalism? Economics tends to play fast and loose with the term; an unintended side-effect of the econometrics revolution is that, in the mathematical models so beloved of the economists, it appears that the variables we treat as endogenous are a function of the models, rather than reality, and that the economist may choose to make any variable endogenous or exogenous, as they see fit.

The real question is the cause of restoration and the cause of decline.

This obliges us to confront the critical distinction between exogenous and endogenous cause. This paper provides the mathematical support for the principal conclusion of my RPE paper on Positivism, my forthcoming paper on What Causes Booms? and my CJE paper on Schumpeter – it was originally to be included as an appendix to this paper. It sets about formulating, mathematically, the distinction between internal and external variables of a theoretical system and then shows that the temporal and the simultaneous method lead to two different sets of options in the assignment of cause, the second of which eliminates any possibility of internal cause. This is why for equilibrium theories, all causes are necessarily exogenous. The presupposition that the market works perfectly is incorporated via the equilibrium assumption that nothing needs to change. This is mathematically demonstrated.

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